

CLARK COUNTY
FINANCE COMMITTEE

SECOND QUARTER, 2003



AUGUST 19, 2003

CLARK COUNTY
FINANCE COMMITTEE
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SECTION I – MAY 13, 2003 MINUTES

REGULAR MEETING MINUTES

Clark County Finance Committee Meeting
May 13, 2003, 2 p.m.

Clark County Treasurer's Office Conference Room

Member in Attendance: Doug Lasher, Chair
Greg Kimsey, Secretary
Craig Pridemore, Commissioner

Others in Attendance: Bill Barron, County Administrator; Cathy Huber Nickerson, Lori Pearce,
Margie Edwards, John Payne, Treasurer's Office

The meeting was called to order by Doug Lasher, Chair, at 2:05 p.m. with a quorum present.

APPROVAL OF MINUTES

MOTION was made by Craig Pridemore, seconded by Doug Lasher, and unanimously carried to approve the Minutes of April 1, 2003.

APPROVAL OF COUNTY FINANCE REPORT

Lori Pearce presented an overview of the first-quarter, 2003, County Finance Report, which included investment strategies, economic and market conditions, and a review of the portfolio as of March 31, 2003. The GDP growth came in at 1.6% compared to 1.4% in fourth-quarter, 2002; the Consumer Confidence Index for March (revised) was 61.4, down from 80.3 in December, however, in April, it went back up to 81 mainly from people feeling better about the war winding down; and the unemployment rate was 5.8% by the end of the first quarter compared to 6% at year end. The County Pool interest rate was 2.43% with Fed Funds at 1.25%. County Pool balances averaged \$507 million in March of 2003 compared to \$473 million in March of 2002. Evergreen School District issued another \$58 million in March resulting in their becoming the largest share participant in the Pool. Evergreen School District funds comprise 28% of the County Pool; County funds comprise 25%; Vancouver School District 19%; Evergreen School District 28%; the Port of Vancouver 7%; Camas School District at 3%; ESD 112 at 4%; Leichner at 3%; and all other districts at 11%. The annualized quarterly total return for the County Pool came in at 1.92% compared to the custom Treasury total return index of 3.01%. The County Pool rate, on a book value return basis and on a net basis, yielded 2.43% compared to the custom Treasury Index with a book value return of 1.21%. The Clark County Investment Pool portfolio remains highly liquid due to positioning the Pool to take advantage of interest rates when they increase. Fair market value adjustments are made four times per year with the next one occurring at the end of June. The current investment strategy is to utilize the U.S. Bank of MIA and the State Pool for short-term investments until the interest rate outlook changes; target an average maturity of seven to eight months in accordance with PFM's barbell-structured recommendation; ladder securities when interest rates on short-term money market securities increase above the State Pool and the U.S. Bank MIA account; continue to utilize State LGIP for short-term investing until interest rate outlook changes; and focus on the two to four-year final maturity sector for new purchases. **MOTION** was made by Greg Kimsey, seconded by Craig Pridemore, and unanimously carried to approve the County Finance Report for first-quarter, 2003.

PFM REPORT

Lori Pearce presented an overview of the County's investments for first quarter, 2003.

Military action in Iraq resulted in the bond and equity markets being volatile during the first quarter.

Interest rates remain at historically low levels with little prospect of rates rising in the near future. Consumer confidence has begun to diminish as the prospects of a sustained economic recovery become questionable.

First-quarter highlights are:

- Asset Diversification – The asset allocation of the portfolio changed slightly with the most notable change being funds transferred from bank deposit investments to the Washington State LGIP.
- Maturity Distribution – The average maturity of the County's pool portfolio shortened from 8.7 months to 7.0 months. Because of interest rates being so low, PFM recommends that the County continue to maintain a defensive position by targeting an average maturity of seven to eight months.
- Credit Quality – The portfolio's high credit quality was maintained. At the end of March, 55% of the portfolio was invested in securities rated "AAA"; 25% invested in the State LGIP; and 20% invested in the unrated U.S. Bank Municipal Investment Account.
- Liquidity – One hundred percent of portfolio assets were categorized in one of PFM's top three liquidity rating categories (1, 2, and 3). The overall weighted liquidity factor was 2.18, which is within PFM's recommended range of 2 – 4).
- Market Risk – The market risk in the portfolio was lowered due to the allocation to securities maturing within one year rising from 66.2% as of December 31, 2002, to 71.6% as of March 31, 2003.
- Callable Exposure – The total portfolio's exposure to call risk was less than 11% as of March 31, 2003.
- Performance – the total annualized return of the County Pool portfolio was 1.92% during the first quarter.

PFM's recommendations are:

- Maintain current asset mix
- Utilize U.S. Bank MIA and State LGIP for short-term investments until interest rate outlook changes.
- Minimize interest rate risk by targeting an average maturity of seven – eight months.
- Capitalize on the shape of the yield curve.
- Monitor callable agency allocation.

Doug Lasher noted that the Investment Advisory Committee, which met earlier in the day with us, did not have any questions.

COUNTY DEBT STATUS

Lori Pearce presented the County Debt Status Report as of March 31, 2003. At the end of the first quarter, 2003, the total outstanding debt of Clark County and its junior taxing districts totaled approximately \$811 million compared to \$708 million on March 31, 2002. New issue during the first quarter was Evergreen School District #114, \$58,000,000 in Unlimited Tax G.O. Bonds to construct and equip schools, acquire future school sites, replace some schools, and to expand and modernize existing facilities.

New issues during second quarter were Clark County, \$11,835,000 in Limited Tax G.O. Improvement and Refunding Bonds to finance the cost of remodeling the Community Development building, acquiring golf course maintenance equipment, acquiring emergency services equipment, pay for portions of the energy savings project, and costs of refunding the callable portion of the outstanding Series 1994 Limited Tax G.O. Bonds; Port of Vancouver, \$10,000,000 in Limited Tax G.O. Bonds to finance a portion of redevelopment of the Port's Terminal 3 including storm water and roadway improvements and to finance a portion of the

Port's other planned capital improvements; and Fire District #11, \$60,000 in Limited Tax G.O. Bonds to pay for an emergency vehicle.

Clark County short-term outstanding debt - \$5,000,000 Line of Credit available from First Independent Bank with a total outstanding as of March 31, 2003 of \$2,457,525. An interfund loan from Clark County to the Clark County Fair of \$1,100,000 had an outstanding amount of \$739,052. The total amount of registered warrants outstanding as of March 31, 2003 was \$2,762,995. Greg Kimsey requested a prior-year history for comparison purposes, and Craig Pridemore requested the same by quarter.

MOTION to adjourn was made by Craig Pridemore, seconded by Greg Kimsey, and unanimously approved to adjourn the meeting at 2:30 p.m.

Submitted by: _____
Greg Kimsey, Secretary

Prepared by: _____
Kathleen Smithline
Administrative Assistant

SECTION II - EXECUTIVE SUMMARY

This report provides a retroactive review of the activities occurring during the second quarter, 2003, in compliance with our Investment Policy and Standards adopted November, 2002.

During the second quarter, the average maturity of the portfolio increased to approximately 8.1 months, compared to 7.1 months in the first quarter of 2003. The asset sector distribution of the portfolio changed during the second quarter, with approximately 40% of the portfolio invested in Federal Agencies, 51% invested in money markets and 9% invested in U.S. Treasuries. This is compared with the first quarter of 2003's asset allocation of 36% of the portfolio invested in Federal Agencies, 45% invested in money markets and 19% invested in U.S. Treasuries. At the end of June 2003, the total portfolio was approximately \$557 million.

Residual balances for the second quarter averaged \$67 million monthly compared to a \$79 million monthly average in the second quarter of 2002. Interest earnings distributed to the County's General Fund during the second quarter of 2003 were \$382,357 compared to \$665,530 for the second quarter of 2002, a decrease of approximately \$283,000. This is a result of lower interest rates in 2003 compared to 2002. The average interest rate of the Clark County Investment Pool for the second quarter of 2003 was 2.26% compared to 3.39% in the second quarter of 2002. Interest earnings for the second quarter of 2003 were lower than our projections by approximately \$400,000 due to the lowest interest rates set by the Federal Reserve in 45 years.

County Pool balances averaged \$583 million in the second quarter of 2003, compared to an average of \$518 million in 2002. Interest earnings distributed to the County Pool participants for the second quarter of 2003 were \$3.3 million compared to \$4.4 million in the second quarter of 2002. Evergreen School District funds made up 27% of the County Pool. In the first quarter of 2003, Evergreen School District issued \$58,000,000 in bonds causing their overall percentage in the pool to increase substantially. Other major Pool participants include the County funds at 26%, Vancouver School District at 18%, Port of Vancouver at 8%, ESD 112, Camas School District and Leichner each at 3% and all other districts at 12%.

The annualized quarterly total return for the County Pool came in at 1.08% compared to the custom Treasury total return index of 1.59%. The custom Treasury total return index generally out performs the County Pool when the average maturity of the Pool falls below nine months. Additionally, with Treasury securities at 9% of pooled securities, out performing Agencies that account for 40% of pooled securities, the normal spread was not picked up on a total return basis. On a book value return basis, the County Pool rate yielded 2.26%, compared to the custom Treasury Index's book value return of 0.96%. The net asset value of the County Pool ended the quarter at 0.99680. An unrealized loss of approximately \$1.1 million was distributed to the Clark County Pool participants for the fair market value adjustment at the end of June. In accordance with our investment policy, fair market value adjustments are made four times per year. The next adjustment will occur at the end of August.

Our current strategy is to utilize the U.S. Bank MIA and the State Pool for short-term investments until the interest rate outlook changes. In order to protect the portfolio from a sudden increase in interest rates, we will maintain a defensive posture by targeting an average maturity of 7 to 8 months. When interest rates on short-term money market securities increase above the State Pool and the U.S. Bank MIA account, we will ladder securities. Until that occurs, we will be investing in Federal Agency securities in the 2 to 4 year final maturity sector to maintain an average maturity in the portfolio of seven to eight months in accordance with PFM's barbell structured recommendation.

SECTION III - 2003 YEAR-TO-DATE

INVESTMENT ACTIVITY:

During the first half of 2003, County residual principal balances averaged \$1.1 million less than the same period in 2002 on an average monthly basis. Actual average 2003 County residual balances were under projections by approximately \$4.4 million for the year.

Date	2002 Residual Balance	2003 Residual Balance	2003 Projected Residual Balance
January	30,856,789	22,190,576	37,000,000
February	31,155,726	43,210,854	34,000,000
March	37,646,261	30,010,925	35,000,000
April	51,177,914	44,478,047	47,000,000
May	117,685,700	104,803,897	105,000,000
June	67,873,104	53,127,743	66,000,000
Average	56,065,916	49,637,007	54,000,000

Since 2001, the Fed has taken aggressive action by lowering interest rates 13 times, which brought the Fed funds short-term interest rate to a 45-year low of 1.00% by the end of June 2003. Actual second quarter interest earnings declined to approximately \$283,000 in 2003 from \$666,000 in 2002. As shown below, total interest earnings for the first half of the year declined approximately \$424,000 in 2003 compared to 2002, approximately \$530,000 less than projected.

Date	2002 Interest Earnings	2003 Interest Earnings	2003 Projected Interest Earnings
January	107,662	36,650	103,549
February	97,169	79,951	92,556
March	115,274	62,699	113,021
April	151,923	87,242	156,667
May	317,493	194,845	384,271
June	196,114	100,270	242,000
Total	985,635	561,657	1,092,064

Shown below, County Pool principal balances averaged nearly \$525 million for 2003, compared to \$499 million during 2002, approximately 5% higher.

Date	2002 Pool Average Balance	2003 Pool Average Balance
January	486,563,440	432,859,337
February	476,757,242	459,652,656
March	473,722,986	507,018,514
April	481,162,641	531,678,200
May	564,699,682	631,898,589

June	509,155,187	585,383,441
Average	498,676,863	524,748,456

The table below reflects County Pool earnings of \$6.3 million in the first half of 2003, compared to \$9.0 million during the first half of 2002, resulting in decreased earnings of approximately 30%. This is due to the lower interest rate environment in 2003 compared to 2002. The average Clark County Pool interest rate for the first half of 2002 was 3.63% compared to 2.41% in 2003.

Date	2002 Pool Interest Earnings	2003 Pool Interest Earnings
January	1,685,793	1,009,481
February	1,482,990	966,887
March	1,449,122	1,059,428
April	1,424,935	1,043,437
May	1,520,815	1,177,429
June	1,471,224	1,099,644
Total	9,034,879	6,356,306

Figure One shows the major participants in the Clark County Investment Pool for the second quarter of 2003. As of June 30, 2002, Evergreen School District made up 27% of the Pool, County funds – 26%, Vancouver School District – 18%, Port of Vancouver – 8%, ESD 112 – 3%, Camas School District and Leichner each at – 3% and all other districts – 12%. In the first quarter of 2003, Evergreen School District issued \$58,000,000 in bonds causing their overall percentage in the pool to increase substantially.

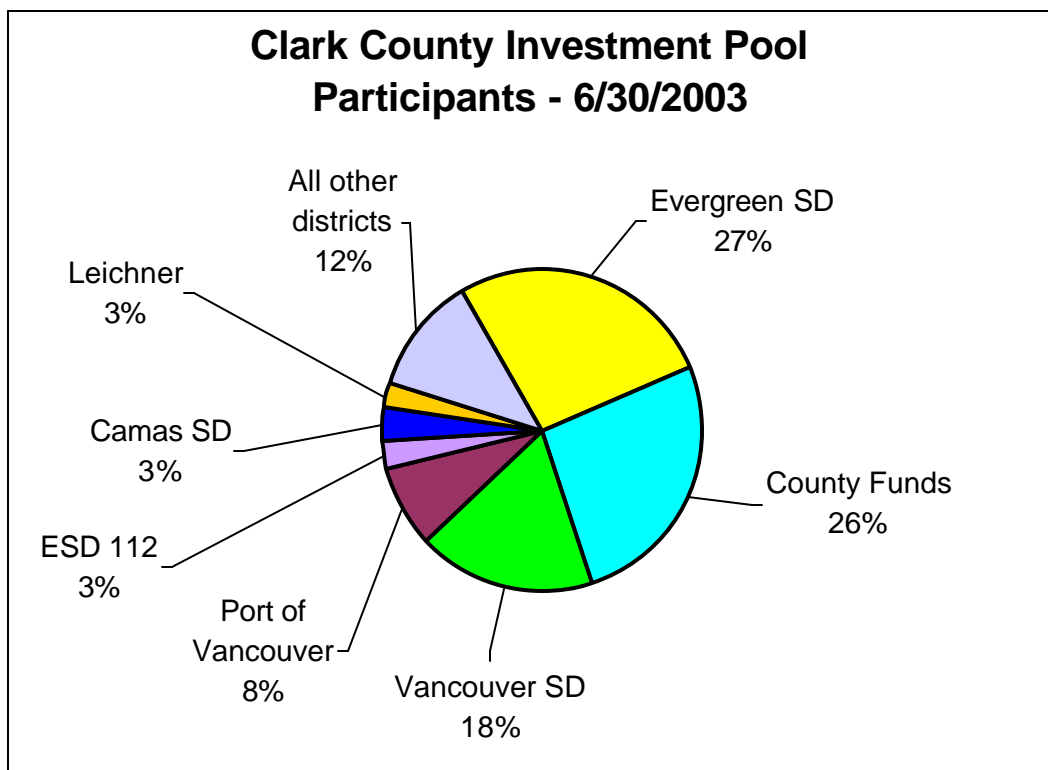


Figure 1

Figure Two shows month-end General Fund cash balances beginning with January 2002 through June 2003. For the first six months of 2003, cash balances in the General Fund decreased below the same period in 2002 by a monthly average of approximately \$1.0 million. This is due primarily to the effects of the recent tax initiatives and overall economic health of the County.

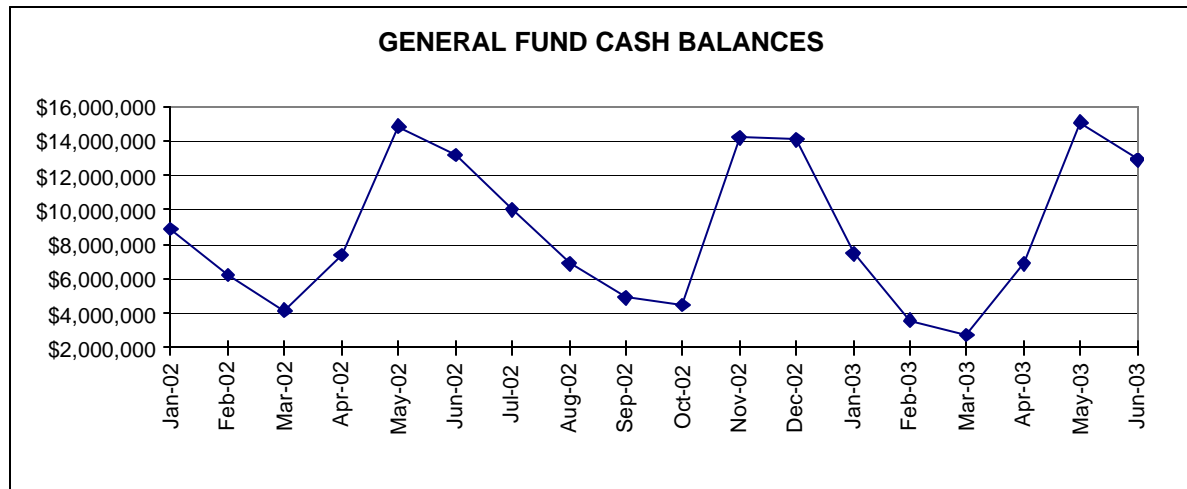


Figure 2

SECTION IV - QUARTERLY ACTIVITY

Figure Three reflects the average principal balances being maintained within the Pool in 2003. For the second quarter of 2003, the average monthly principal balance increased above the second quarter of 2002 levels by \$65 million.

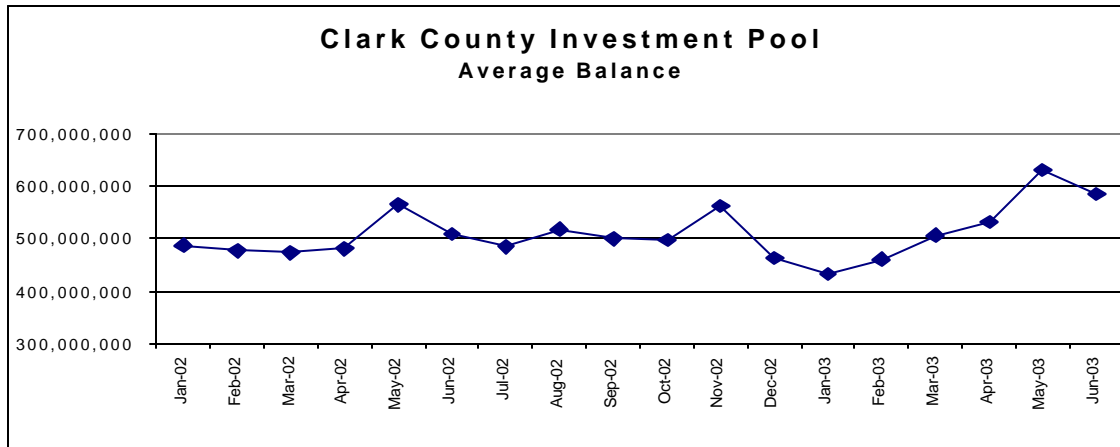


Figure 3

Figure Four reflects the actual monthly residual principal balances managed by the County for 2002 and 2003. Residual balances for the second quarter 2003 decreased below the second quarter of 2002 levels by an average of \$11.5 million per month due to lower growth in property tax revenues.

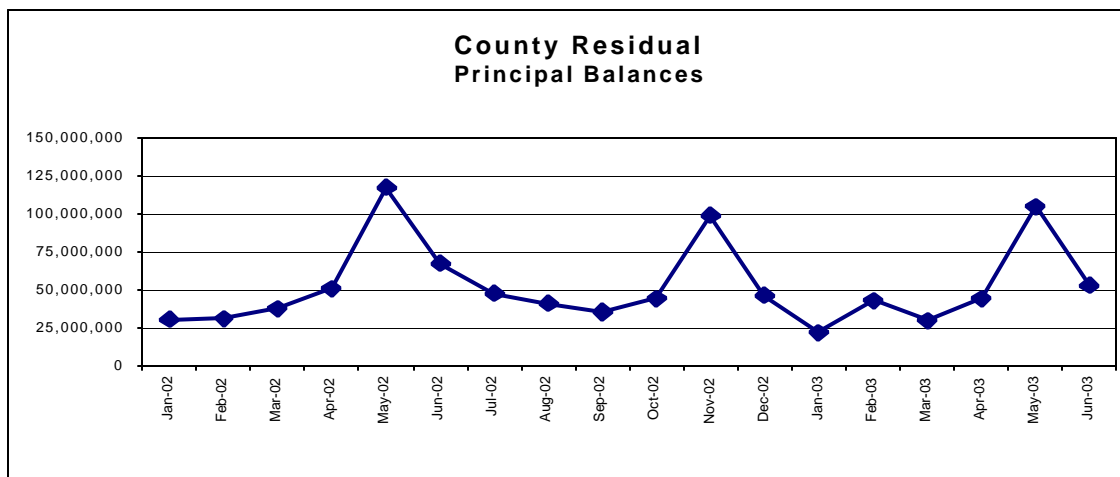


Figure 4

Figure Five shows interest earnings distributed each month to the County's General fund during 2002 and 2003. During the second quarter of 2003, interest earnings averaged \$95,000 less per month than during the same period in 2002. This is due to lower residual balances and lower interest rates during the second quarter. On an average monthly basis, \$222,000 was allocated to the General fund during second quarter of 2002. For second quarter of 2003, an average of \$127,000 was distributed to the General fund per month.

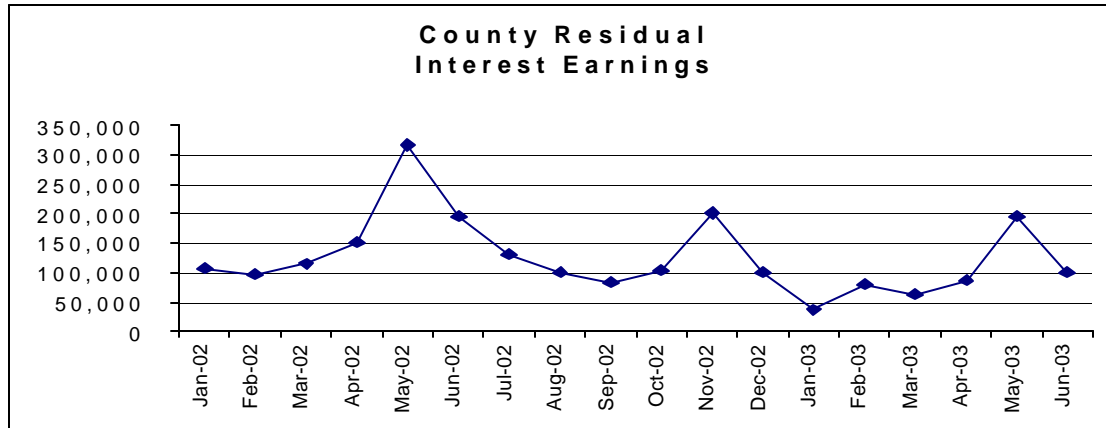


Figure 5

Figure Six shows the County Pool interest rates for 2002 and 2003. The County Pool's book value, gross interest rate at the end of June 2003 was 2.26%, compared to 3.47% on June 30, 2002.

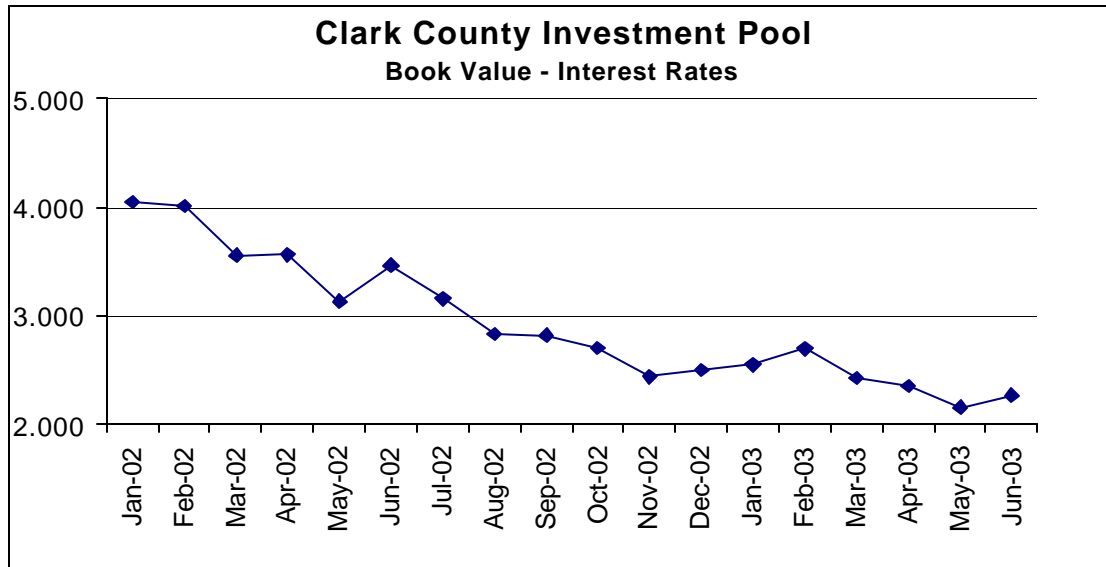


Figure 6

Figures 7 (a) and (b) compare performance on a book value return basis. The County Pool's interest rate is expressed as the net interest rate (the gross rate less the investment fee). The book value return of a portfolio measures the yield based on the yield of the securities at the time the securities are purchased. These performance benchmarks consist of a composite Treasury Index with an average maturity of nine months and the Washington State Local Government Investment Pool (LGIP) with an average maturity of approximately two months. The Clark County Investment Pool has an average maturity of approximately eight months. The Treasury Index and the LGIP closely track current interest rates. At the end of the second quarter, the County Pool's net rate, on a book value return basis was 2.26%, the Treasury Index was 0.96%, and the State Pool's net rate was 1.19%.

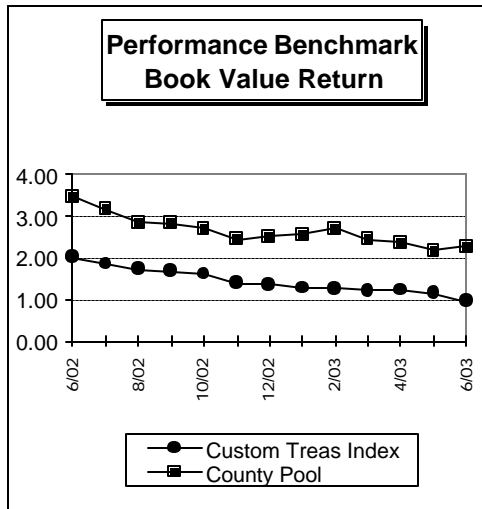


Figure 7(a)

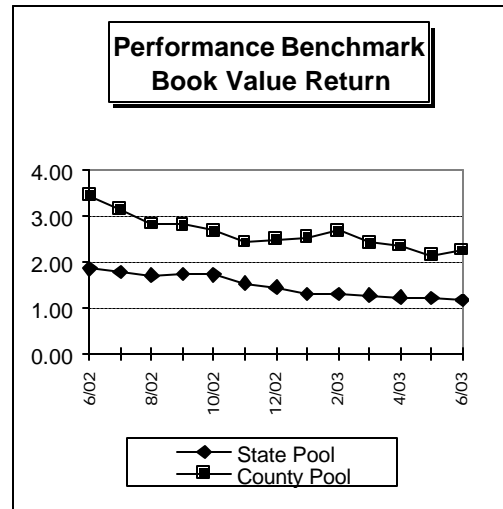


Figure 7(b)

Figure Eight compares performance on a total return basis. Total return measures the market value increase or decrease in the value of the portfolio over a given period of time and the interest earnings associated with the securities. The customized total return index consists of two Merrill Lynch U.S. Treasury Securities maturing from six months to one year. The annualized second quarter return for 2003 for the County Pool was 1.08% and the Treasury Index was 1.59%. Wide swings in return reflect the volatility in the investment markets. In addition, the custom Treasury total return index typically out performs the County Pool as the average maturity of the Pool falls below nine months.

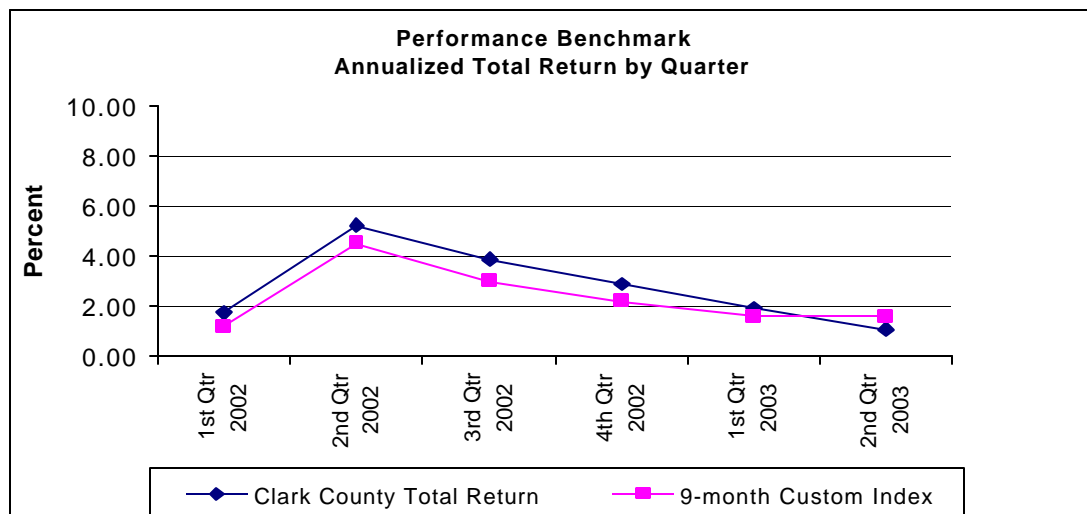


Figure 8

Figure Nine shows the market value of the Pool portfolio based on net asset value (NAV). As of June 2003, the NAV was 0.99680. GASB Statement 31 requires that External Investment Pools report all investments at fair market value, if the average maturity of the Pool exceeds 90 days. On June 30, 2003, the Treasurer's Office posted approximately \$1.1 million in unrealized losses to the County Pool. The next adjustment for fair market value will occur on August 31, 2003.

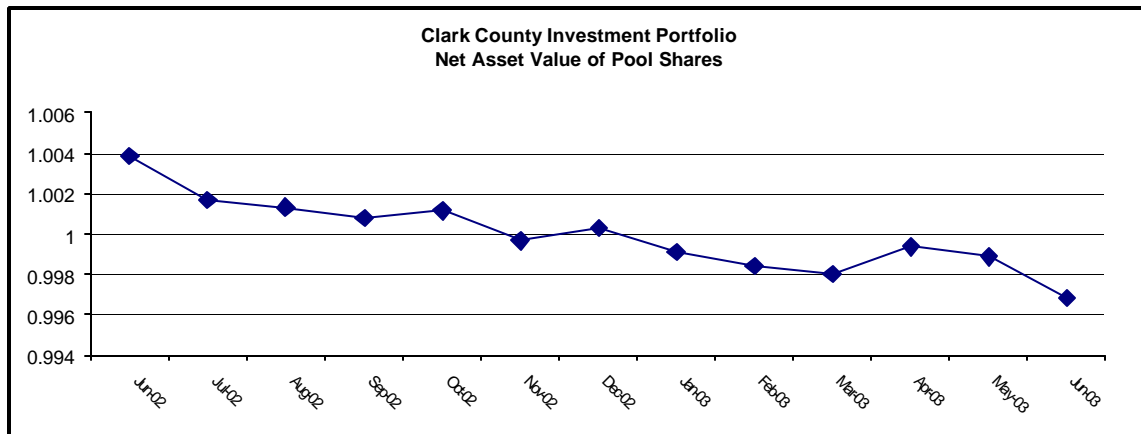


Figure 9

Figure Ten is a breakdown by year reflecting the total unrealized gains/(losses) since 1998. As of June 30, 2003 the County Portfolio has posted \$2.3 million in aggregate unrealized gains on a fair market value basis. Unrealized losses of approximately \$1.1 million were posted June 30, 2003. Annual unrealized gains/(losses) are the direct result of fluctuating interest rates.

Year	Unrealized gain/(loss)
1998	566,583
1999	(2,563,593)
2000	4,038,403
2001	2,072,065
2002	295,807
2003	(2,144,105)
Cumulative	2,265,160

Figure 10

Figure Eleven shows the projected County Pool interest rates for 2003 compared to the actual interest rates.

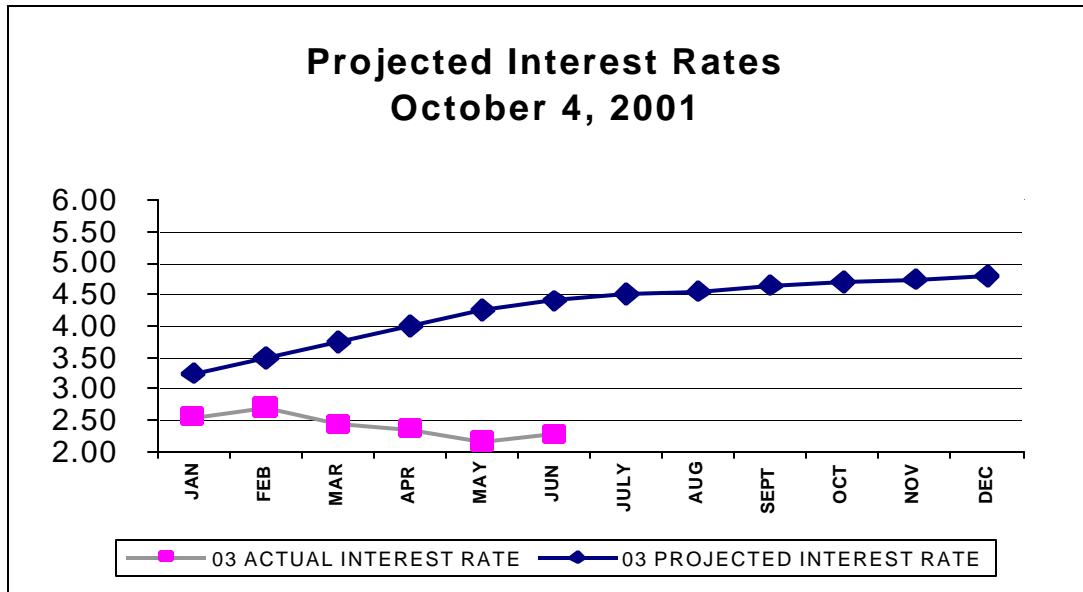


Figure 11

SECTION V - INVESTMENT STRATEGY

The following table shows the percentage distribution of the Clark County Pool maturity periods. As the table indicates, during 2002 emphasis was placed on purchasing securities in the 0 -1 year maturity sector to target an average maturity of 8 months. During 2003, investments were purchased in the 0 - 1 year sector to target an average maturity of 7-8 months.

Period	0 - 1 year	1 – 2 years	2 - 5 years
1 st quarter, 2002	60%	27%	12%
2 nd quarter, 2002	56%	42%	2%
3 rd quarter, 2002	63%	32%	5%
4 th quarter, 2002	66%	29%	5%
1 st quarter, 2003	71%	22%	7%
2nd quarter, 2003	79%	7%	14%

During the third quarter of 2003, we plan to maintain a weighted average maturity of seven to eight months using a "barbell" structure. We are going to continually monitor our investment strategy to be proactive as economic conditions fluctuate.

The first quarter, 2003 report issued by Public Financial Management, Inc. (PFM) recommended the following sector distributions to maintain the Clark County Investment Pool at a 7 to 8-month average maturity.

Investment Sector	Recommended Average Maturity	Current Average Maturity	Recommended % of Portfolio	Current % of Portfolio
US Treasury Notes	9 months-1.75 years	1.54 years	10% - 25%	9%
Federal Agency Notes/Disc. Notes	6 months – 2 years	6.12 months	30% - 60%	40%
Money Markets - State Pool, CP, CD's & BA's	1 – 60 days	1 day	30% - 60%	51%
Aggregate Avg. Maturity	7-8 months	8.1 months		

During the second quarter of 2003, the percentage of US Treasury Notes decreased by 9.5%; there was a 3% increase in Federal Agencies and a 6% increase in the money market sector.

SECTION VI - ECONOMIC/MARKET CONDITIONS

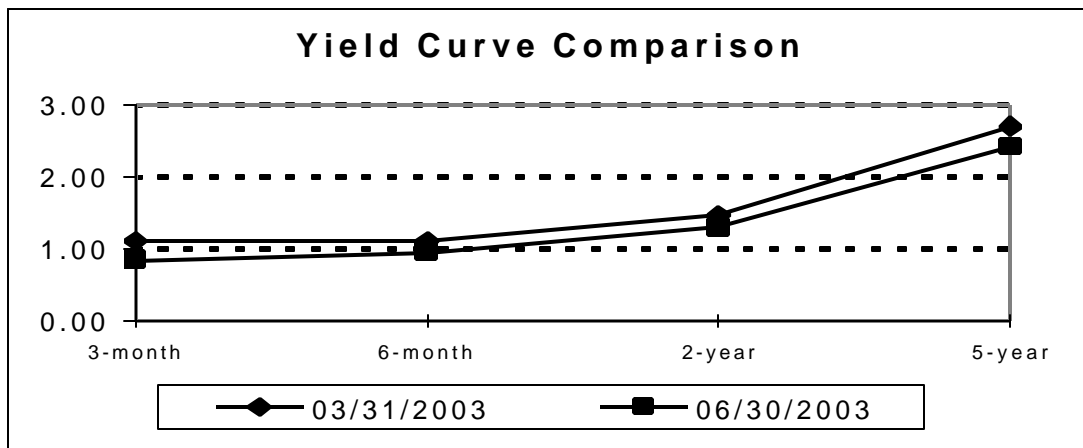
The U.S. economy expanded at a 2.4% annual rate in the second quarter, compared to 1.4% in the previous two quarters, powered by consumer purchases, business investment and the biggest jump in defense spending since 1951.

According to the Bureau of Labor Statistics: The number of unemployed persons increased by 360,000 in June to 9.4 million, and the unemployment rate rose from 6.1 to 6.4 percent. Since March, unemployment has increased by 913,000. In June, there were 2.0 million unemployed persons who had been looking for work for 27 weeks or longer, an increase of 410,000 over the year. They represented 21.4 percent of the total unemployed, up from 18.8 percent a year earlier.

The Consumer Confidence Index (CCI) at the end of June is 83.5 increasing significantly from 62.5 at the end of the first quarter. Retail sales rose 0.5% in June, more than expected, paced by purchases of building materials, furniture and apparel, according to the Commerce Department. Unemployment rose to 6.4% in June while the average rate this year is expected to be 6.25% in the fourth quarter compared to 4% in the fourth quarter of 2002. Forecasted unemployment for the fourth quarter of 2004 is 5.5% to 6%.

The Federal Reserve Board cut its overnight lending rate in June by a quarter-point to 1% and top economists are predicting that the 19% drop in oil prices since mid-March, the lowest interest rates in 45 years, and the \$350 billion package of federal tax cuts together with aid to states are setting the stage for recovery - according to Bloomberg news. The aggregate stimulus is expected to double the economic growth rate in the second half of the year and is the strongest stimulus package since WWII. "The Fed stands prepared to maintain a highly accommodative stance of policy for as long as needed to promote satisfactory economic performance," Greenspan said in June.

On June 30, 2003 the 3-month T-bill yielded 0.846 compared to 1.108% on March 30, 2003. The yield curve begins to shift upward after the 6-month sector.



SECTION VII - PORTFOLIO

Exhibit One shows the make up of the entire portfolio at the end of the second quarter of 2003. This exhibit is used to monitor compliance with the Investment Policy as far as the diversification of securities held and the percentage each sector makes up of the total portfolio. All percentages are consistent with the current policy.

Exhibit Two shows the complete portfolio listings as of the end of the year. This report shows the book value, the par value, and the market value of the portfolio as of June 30, 2003.

Exhibit Three shows the liquidity of the entire portfolio. All percentages are consistent with the current policy.

Exhibit Four reflects the percentage of securities purchased from each issuer relative to the entire portfolio. On June 30th, the average maturity was approximately eight months. All the percentages are consistent with the current policy and PFM recommendations.

Exhibit Five shows all investment purchases and maturities from January 1, 2003 through June 30, 2003.

Exhibit Six shows the make up of the Clark County Investment Pool at the end of the second quarter of 2003. This exhibit is used to monitor compliance with the Investment Policy as far as the diversification of securities held and related percentage of the total portfolio for each type of security. On June 30, 2003 the average term of the Pool was approximately eight months. All percentages are consistent with the current policy.

Exhibit Seven shows the portfolio listings of the Clark County Investment Pool at the end of the second quarter. This report contains the book value, the par value, and the market value as of June 30, 2003.

Exhibit Eight shows the liquidity of the Clark County Investment Pool. All percentages are consistent with the current policy.

Exhibit Nine reflects the percentage of securities purchased from each issuer for the Clark County Investment Pool. All percentages are consistent with the current policy.

Exhibit Ten is a comparison of the Clark County Investment Pool to the Washington State Pool.